



Income Tax on Provident Fund Interest

Income-tax (25th Amendment) Rules, 2021

Government of India has amended Income-tax Rules, 1962 vide Central Board of Direct Taxes (CBDT), Ministry of Finance Notification No. **95/2021** dated **31 Aug 2021**.

- These rules may be called **Income-tax (25th Amendment) Rules, 2021**.
- These rules shall come into force on **1st day of April, 2022**.
- Vide this notification, **rule 9D** shall be inserted in the Income-tax Rules, 1962, after the rule 9C.

9D. Calculation of taxable interest relating to contribution in a provident fund exceeding specified limit

Sub Rule (1): For the purposes of the first and second provisos to clauses (11) and (12) of section 10,

Income by way of interest accrued during the previous year **which is not exempt** from inclusion in the total income of a person under the said clauses, shall be computed as the interest accrued during the previous year **in the taxable contribution account.**

Sub Rule (2): For the purpose of **calculation of taxable interest** under sub-rule (1), **separate accounts** within the provident fund account shall be maintained during the previous year 2021-2022 and all subsequent previous years for taxable contribution and non-taxable contribution made by a person.

Explanation for the purposes of this rule:

- (a)** Non-taxable contribution account shall be the aggregate of the following, namely:-
 - (i)** closing balance in the account as on 31st day of March 2021;

(ii) any contribution made by the person in the account during the previous year 2021-2022 and subsequent previous years, which is not included in the taxable contribution account; and

(iii) interest accrued on sub-clause (i) (closing balance of previous year) and sub-clause (ii) (non-taxable contribution), as reduced by the withdrawal, if any, from such account;

Non-taxable Contribution Account:

- Total of
- (A) Closing balance as on 31st day of March
 - (B) Non-Taxable contribution in previous year
 - (C) Interest on Closing balance (A) and Non-Taxable contribution (B)

(b) **Taxable contribution** account shall be the aggregate of the following, namely:-

(i) **contribution** made by the person in a previous year in the account during the previous year 2021-2022 and subsequent previous years, which is **in excess of the threshold limit;** and

(ii) **interest** accrued on sub-clause (i), as reduced by the withdrawal, if any, from such account.

Taxable Contribution Account:

Total of (A) Taxable contribution in previous year

(B) Interest on Taxable contribution

- (c) The **threshold limit** shall mean:
- (i) **Five lakh rupees**, if the contribution by a person, *on or after 1st day of April, 2021* is in a fund in which there is no contribution by the employer e.g. **General Provident Fund (GPF)**; and
 - (ii) **Two lakh and fifty thousand rupees** in other cases e.g. **Employees' Provident Fund (EPF)**, etc.

How to calculate Non-Taxable Interest & Taxable Interest:

Salary Period	Paid in Month	Monthly Contribution	Cumulative balance at the end of the month	Interest @7.1% p.a. on balance at the end of the month.	Non-Taxable Interest	Taxable Interest
MAR-2021	APR-2021	55,000	55,000	325	325	
APR-2021	MAY-2021	55,000	1,10,000	651	651	
MAY-2021	JUN-2021	55,000	1,65,000	976	976	
JUN-2021	JUL-2021	55,000	2,20,000	1302	1302	
JUL-2021	AUG-2021	55,000	2,75,000	1627	1627	
AUG-2021	SEP-2021	55,000	3,30,000	1953	1953	
SEP-2021	OCT-2021	55,000	3,85,000	2278	2278	
OCT-2021	NOV-2021	55,000	4,40,000	2603	2603	
NOV-2021	DEC-2021	55,000	4,95,000	2929	2929	
DEC-2021	JAN-2022	55,000	5,00,000	2958	2958	
			5,50,000	296		296
JAN-2022	FEB-2022	55,000	6,05,000	3580	2958	622
FEB-2022	MAR-2022	55,000	6,60,000	3905	2958	947
TOTAL		6,60,000		25,383	23,518	1,865

Non-Taxable Contribution Account and Taxable Contribution Account:

S.No.	Particulars for F.Y. 2021 – 2022	Non-Taxable Amount	Taxable Amount	Total Amount
1	Opening Balance as on 01 Apr 2021	30,00,000		30,00,000
2	Interest accrued on the Opening Balance	2,13,000		2,13,000
3	Contribution made up to threshold limit / excess of limit in 2021-22	5,00,000	1,60,000	6,60,000
4	Interest accrued on the amount within threshold / above threshold limit	23,518	1,865	25,383
5	Closing Balance as on 31 Mar 2022	37,36,518	1,61,865	38,98,383

Opening Balance as on 01 Apr 2022: 38,98,383/-

Important to Note:

Interest of Rs. 1,865/- accrued on taxable contribution will be included in **Gross Salary** and will be taxed as per applicable Income Tax slabs.

$$\text{Interest} = \frac{\text{Cumulative Balance} \times 7.1}{12 \times 100}$$